

103<sup>D</sup> CONGRESS  
1<sup>ST</sup> SESSION

# H. R. 822

To amend the Internal Revenue Code of 1986 to increase the availability of individual retirement accounts, to increase amount deductible for contributions to such accounts, and to permit penalty-free withdrawals from such accounts to pay educational, medical, and business start-up expenses.

---

## IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 4, 1993

Mr. BROWN of California introduced the following bill; which was referred to the Committee on Ways and Means

---

## A BILL

To amend the Internal Revenue Code of 1986 to increase the availability of individual retirement accounts, to increase amount deductible for contributions to such accounts, and to permit penalty-free withdrawals from such accounts to pay educational, medical, and business start-up expenses.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

3       **SECTION 1. SHORT TITLE.**

4       This Act may be cited as the “Middle Class Flexible  
5       Savings Act of 1993”.

1 **SEC. 2. HIGHER MAXIMUM IRA DEDUCTION AND INCOME**  
2 **PHASEOUT LIMITS; INFLATION ADJUSTMENT**  
3 **OF MAXIMUM IRA DEDUCTION AND PHASE-**  
4 **OUT LIMITS.**

5 (a) HIGHER MAXIMUM IRA DEDUCTION.—

6 (1) IN GENERAL.—The following provisions of  
7 the Internal Revenue Code of 1986 are each amend-  
8 ed by striking “\$2,000” and inserting “\$3,000”:

9 (A) Subsections (b)(1)(A) and (c)(2) of  
10 section 219.

11 (B) Subsections (a)(1), (b), and (j) of sec-  
12 tion 408.

13 (2) CONFORMING AMENDMENT.—Sections  
14 219(c)(2) and 408(d)(5) are each amended by strik-  
15 ing “\$2,250” and inserting “\$3,500”.

16 (b) HIGHER INCOME PHASEOUT LIMITS.—

17 (1) Subparagraph (B) of section 219(g)(3) of  
18 such Code is amended—

19 (A) by striking “\$40,000” and inserting  
20 “\$50,000”, and

21 (B) by striking “\$25,000” and inserting  
22 “\$30,000”.

23 (2) Clause (ii) of section 219(g)(2)(A) of such  
24 Code is amended to read as follows:

25 “(ii) \$12,000.”

1       (c) INFLATION ADJUSTMENT OF MAXIMUM IRA DE-  
2       DUCTION AND INCOME PHASEOUT LIMITS.—Section 219  
3       of such Code is amended by inserting after subsection (f)  
4       the following new subsection:

5       “(g) INFLATION ADJUSTMENT OF MAXIMUM DEDUC-  
6       TION AND INCOME PHASEOUT LIMITS.—

7               “(1) IN GENERAL.—In the case of any taxable  
8       year beginning in a calendar year after 1993, each  
9       applicable dollar amount shall be increased by an  
10      amount equal to—

11               “(A) such dollar amount, multiplied by

12               “(B) the cost-of-living adjustment under  
13      section 1(f)(3) for the calendar year in which  
14      the taxable year begins, determined by sub-  
15      stituting ‘calendar year 1992’ for ‘calendar year  
16      1989’ in subparagraph (B) thereof.

17               “(2) APPLICABLE DOLLAR AMOUNT.—For pur-  
18      poses of paragraph (1), the term ‘applicable dollar  
19      amount’ means—

20               “(A) the \$3,000 amount in subsections  
21      (b)(1)(A), (c)(2), and (c)(3) of this section and  
22      in subsections (a)(1), (b), and (j) of section  
23      408,

24               “(B) the \$3,500 amount in subsection  
25      (c)(2) of this section and in section 408(d)(5),

1 “(C) the \$50,000 and \$30,000 amounts in  
2 subsection (g)(3)(B), and

3 “(D) the \$12,000 amount in subsection  
4 (g)(2)(A)(ii).

5 “(3) ROUNDING.—If any amount as adjusted  
6 under paragraph (1) is not a multiple of \$50, such  
7 amount shall be rounded to the nearest multiple of  
8 \$50 (or, if such amount is a multiple of \$25 and not  
9 of \$50, such amount shall be rounded to the next  
10 highest multiple of \$50).”

11 (d) EFFECTIVE DATE.—The amendments made by  
12 this section shall apply to taxable years beginning after  
13 December 31, 1992.

14 **SEC. 3. IRA FOR NONWORKING SPOUSE WITH YOUNG CHIL-**  
15 **DREN COMPUTED ON BASIS OF COMPENSA-**  
16 **TION OF BOTH SPOUSES.**

17 (a) IN GENERAL.—Subsection (c) of section 219 of  
18 the Internal Revenue Code of 1986 (relating to special  
19 rules for certain married individuals) is amended by add-  
20 ing at the end thereof the following new paragraph:

21 “(3) HIGHER LIMIT FOR SPOUSE WITH YOUNG  
22 CHILDREN.—

23 “(A) IN GENERAL.—In the case of a quali-  
24 fying spouse, the amount allowable as a deduc-

tion under paragraph (1) shall not exceed the  
lesser of—

“(i) \$3,000, or

“(ii) the sum of—

“(I) the compensation includible  
in such individual’s gross income for  
the taxable year, plus

“(II) the compensation includible  
in the gross income of such individ-  
ual’s spouse for the taxable year re-  
duced by the amount allowable as a  
deduction under subsection (a) to  
such spouse for such taxable year.

“(B) QUALIFYING SPOUSE.—For purposes  
of subparagraph (A), the term ‘qualifying  
spouse’ means any spouse of an individual if—

“(i) such individual and spouse file a  
joint return for the taxable year,

“(ii) such spouse has less than \$1,000  
of compensation (determined without re-  
gard to section 911) for the taxable year,  
and

“(iii) such spouse has a child (as de-  
fined in section 151(c)(3)) who has not at-  
tained age 6 as of the close of such taxable

1           year and who is a dependent (as defined in  
2           section 152) of the taxpayer for such  
3           year.”

4           (b) EFFECTIVE DATE.—The amendment made by  
5 this section shall apply to taxable years beginning after  
6 December 31, 1992.

7 **SEC. 4. PENALTY-FREE WITHDRAWALS FROM CERTAIN**  
8 **PLANS TO PAY EDUCATIONAL EXPENSES,**  
9 **MEDICAL EXPENSES, AND BUSINESS START-**  
10 **UP EXPENSES.**

11           (a) EDUCATIONAL EXPENSES AND BUSINESS START-  
12 UP EXPENSES.—

13           (1) IN GENERAL.—Paragraph (2) of section  
14 72(t) of the Internal Revenue Code of 1986 (relating  
15 to exceptions to 10-percent additional tax on early  
16 distributions from qualified retirement plans) is  
17 amended by adding at the end thereof the following  
18 new subparagraph:

19                   “(D) DISTRIBUTIONS FROM CERTAIN  
20 PLANS FOR EDUCATIONAL EXPENSES AND BUSI-  
21 NESS START-UP EXPENSES.—

22                           “(i) IN GENERAL.—Distributions to  
23 an individual from an individual retirement  
24 plan, or from amounts attributable to em-  
25 ployer contributions made pursuant to

1 elective deferrals described in subpara-  
2 graph (A) or (C) of section 402(g)(3) or  
3 section 501(c)(18)(D)(iii) to the extent  
4 such distributions do not exceed the sum  
5 of—

6 “(I) the qualified higher edu-  
7 cation expenses (as defined in para-  
8 graph (6)) of the taxpayer for the tax-  
9 able year, and

10 “(II) the start-up expenditures  
11 (as defined in section 195(c)) of the  
12 taxpayer for the taxable year.

13 “(ii) ADJUSTED GROSS INCOME  
14 LIMIT.—Clause (i) shall apply to distribu-  
15 tions from an individual retirement plan  
16 only if the adjusted gross income of the  
17 distributee for the taxable year in which  
18 the distribution occurs does not exceed—

19 “(I) \$60,000 in the case of an  
20 unmarried individual,

21 “(II) \$70,000 in the case of a  
22 joint return, and

23 “(III) \$35,000 in the case of a  
24 married individual filing a separate  
25 return.”

1           (2) QUALIFIED HIGHER EDUCATION EXPENSES  
2       DEFINED.—Section 72(t) of such Code is amended  
3       by adding at the end thereof the following new para-  
4       graph:

5           “(6) QUALIFIED HIGHER EDUCATION EX-  
6       PENSES.—For purposes of paragraph (2)(D)—

7           “(A) IN GENERAL.—The term ‘qualified  
8       higher education expenses’ means tuition, fees,  
9       books, supplies, and equipment required for the  
10      enrollment or attendance of—

11           “(i) the taxpayer,

12           “(ii) the taxpayer’s spouse, or

13           “(iii) a child (as defined in section  
14      151(c)(3)) of the taxpayer,

15      at an eligible educational institution (as defined  
16      in section 135(c)(3)).

17           “(B) COORDINATION WITH SAVINGS BOND  
18      PROVISIONS.—The amount of qualified higher  
19      education expenses for any taxable year shall be  
20      reduced by any amount excludable from gross  
21      income under section 135.”

22      (b) CATASTROPHIC ILLNESS EXPENSES.—Subpara-  
23      graph (A) of section 72(t)(3) of such Code is amended  
24      to read as follows:



1           “(A) CERTAIN EXCEPTIONS NOT TO APPLY  
2 TO INDIVIDUAL RETIREMENT PLANS.—

3           “(i) IN GENERAL.—Except as pro-  
4 vided in clause (ii), subparagraphs (A)(v),  
5 (B), and (C) of paragraph (2) shall not  
6 apply to distributions from an individual  
7 retirement plan.

8           “(ii) DISTRIBUTIONS FOR MEDICAL  
9 EXPENSES FROM CERTAIN INDIVIDUAL RE-  
10 TIREMENT PLANS.—Subparagraph (B) of  
11 paragraph (2) shall apply to distributions  
12 from an individual retirement plan if the  
13 adjusted gross income of the distributee  
14 for the taxable year in which the distribu-  
15 tion occurs does not exceed the applicable  
16 limitation under paragraph (2)(D).”

17 (c) CONFORMING AMENDMENTS.—

18           (1) Section 401(k)(2)(B)(i) of such Code is  
19 amended by striking “or” at the end of subclause  
20 (III), by striking “and” at the end of subclause (IV)  
21 and inserting “or”, and by inserting after subclause  
22 (IV) the following new subclause:

23           “(V) the date on which distribu-  
24 tions for qualified higher education  
25 expenses (as defined in section

1                   72(t)(6)) or start-up expenses (as de-  
2                   fined in section 195(c)) are made,  
3                   and”.

4                   (2) Section 403(b)(11) of such Code is amend-  
5                   ed by striking “or” at the end of subparagraph (A),  
6                   by striking the period at the end of subparagraph  
7                   (B) and inserting “, or”, and by inserting after sub-  
8                   paragraph (B) the following new subparagraph:

9                   “(C) for the payment of qualified higher  
10                  education expenses (as defined in section  
11                  72(t)(6)) or start-up expenses (as defined in  
12                  section 195(c)).”

13                  (d) EFFECTIVE DATE.—The amendments made by  
14                  this section shall apply to payments and distributions after  
15                  the date of the enactment of this Act.

○